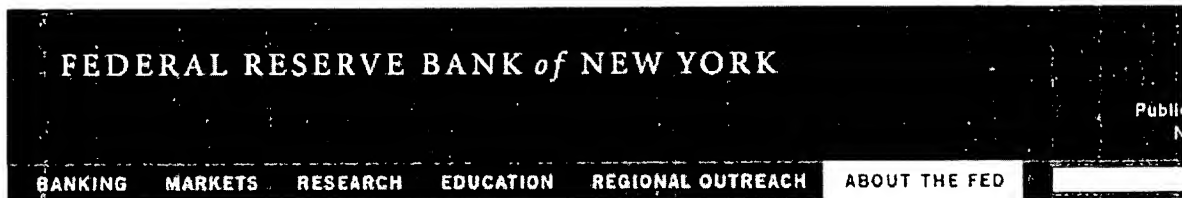


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Amendment in Response to Non-Final OA mailed 8/22/2007

ATTACHMENT A

"Fedwire – Fedpoints – Federal Reserve Bank of New York"
found on the internet at <http://www.newyorkfed.org/aboutthefed/fedpoint/fed43.html>



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FEDPOINT

Fedwire®

- ▣ **Fedwire, an electronic transfer system developed and maintained by the Federal Reserve System, enables financial institutions to transfer funds and book-entry securities nationwide.**
- ▣ **The system connects Federal Reserve Banks and Branches, the Treasury and other government agencies, and about 9,500 on-line and off-line depository institutions.**
- ▣ **Fedwire and CHIPS, a private-sector funds transfer network specializing in international transactions, handle most large-dollar transfers.**

The Transfer System Linchpin

Fedwire, the Federal Reserve's electronic funds and securities transfer service, plays a key role in the nation's payments mechanism. Depository institutions use Fedwire mainly to move balances to correspondent banks and to send funds to other institutions on behalf of customers. Transfers on behalf of bank customers include funds used in the purchase or sale of government securities, deposits, and other large, time-sensitive payments. The Treasury and other federal agencies use Fedwire extensively to disburse and collect funds.

Fedwire is used by Federal Reserve Banks and Branches, the Treasury and other government agencies, and some 9,500 depository institutions. The system is available on-line to about 8,300 users -- depository institutions with computers or terminals that communicate directly with the Fedwire network. These users originate over 99 percent of total funds transfers. The remaining customers have off-line access to Fedwire for a limited number of transactions.

In 2002, some 115 million funds transfers with a total value of \$405 trillion were made over Fedwire -- an average of \$3.5 million per transaction. About 43 million transfers, worth \$240 trillion (about \$1 trillion per day), were originated by banks in the Second Federal Reserve District alone, which is served by the New York Fed. Another 20.4 million Treasury and agency securities transfers, valued at \$283 trillion (about \$1.1 trillion per day), were processed over Fedwire. Of these, the New York Fed completed 16 million transfers valued at \$246 trillion.

Transfers of U.S. government and agency securities over Fedwire take place in **book-entry** form. The Fedwire Securities Transfer System is a real-time, delivery-versus-payment (DVP), gross settlement system that allows for the immediate, simultaneous transfer of securities against payment. A DVP system is a settlement

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mechanism that ensures the final transfer of one asset occurs if and only if the final transfer of another asset (or other assets) occurs. Fedwire thus plays a significant role in the conduct of monetary policy and the government securities market by increasing the efficiency of Federal Reserve **open market operations** and helping to keep the market for government securities liquid.

All Fedwire transfers are completed on the day they are initiated, generally in a matter of minutes. They are guaranteed to be final by the Fed as soon as the receiving institution is notified of the credit to its account.

The Fedwire Funds Transfer Service operates from 12:30a.m to 6:30p.m. ET. These hours of operation overlap with both the European and Asia/Pacific markets. The Fedwire Securities Transfer Service Operates from 8:30a.m to 3:30p.m ET, Monday through Friday.

Toward an All-Electronic System

The Federal Reserve has been moving funds electronically since 1918. In conjunction with the change from weekly to daily settlement, the Reserve Banks installed a private telegraph system for themselves and began to process transfers of funds. Treasury securities became transferable by telegraph in the 1920s. The nation's funds and securities transfer system remained largely telegraphic until the early 1970s.

Until 1980, Fedwire services were offered without explicit cost to Federal Reserve member commercial banks. However, the Depository Institutions Deregulation and Monetary Control Act of 1980 required the pricing of Fed services, including funds and securities transfers, and gave nonmember depository institutions direct access to the transfer system. To encourage private-sector competition, the law requires the Fed's fees to reflect the full cost of providing the services, including an implicit cost for capital and profitability.

Subject to certain conditions, the Federal Reserve Banks can extend credit to Fedwire participants lacking sufficient balances to cover their payment instructions. This exposes the Reserve Banks to a risk of a loss. To limit this exposure, the Federal Reserve Banks have adopted a comprehensive daylight overdraft control policy consisting of debit caps, monitoring and daylight overdraft pricing.

How Fedwire Works

In a typical funds transfer, an individual or a business instructs its bank to send a funds transfer. The sending bank debits the sender's account and initiates a fedwire funds transfer. The Federal Reserve, in turn, debits the account of the sending bank and credits the account of the receiving bank; the Fed notifies the receiving bank about the transfer. The receiving bank credits the recipient's account and notifies the recipient of the receipt of the funds. The transfer is final when the funds are received. Funds can be used by the recipient immediately thereafter.

Other Transfer Systems

Fedwire and a private-sector funds transfer network, the **Clearing House Interbank Payment System (CHIPS)**, handle most large-dollar wire transfers. Most CHIPS transfers result from international transactions. CHIPS transfers are settled through a net basis at the end of the day, using Fedwire funds transfers to and from a special settlement account on the books of the New York Fed.

In addition to Fedwire, the Federal Reserve Banks provide Net Settlement Services to settle accounts among private-sector

payments systems, such as check clearing houses, automated clearing house associations, and private electronic funds transfer systems that normally process a large number of transactions among member institutions. The National Settlement Service process involves posting net debit and net credit entries provided by the agents for the settlement system to the accounts that the participant depository institutions maintain at the Federal Reserve. The debit and credit entries are final when posted.

The Federal Reserve System has played an active role in providing automated clearing house (ACH) services to participating depository institutions since the inception of automated clearing houses. An automated clearing house processes and delivers electronic debit and credit payments among participants.

As a fiscal agent of the United States, the Federal Reserve Banks provide electronic payments services for the Treasury's ACH-based program for direct deposit of federal recurring payments. These payments include Social Security, Veterans Administrations benefits, and federal salary payments.

Fedwire is a registered service mark of the Federal Reserve Banks

July 2003

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